

UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND

AUDITED FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION

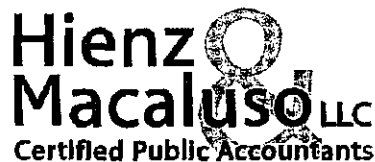
YEARS ENDED JUNE 30, 2007 AND 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5/21/08

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Statement of Net Assets Available for Benefits	3
Statement of Changes in Net Assets Available for Benefits	4
Notes to the Financial Statements	5-15
Additional Information - Schedule of expenses	17
Other Reports Required by <u>Government Auditing Standards</u> :	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20
Summary Schedule of Findings	21-22
Reports by Management:	
Schedule of Prior Year Findings	23
Management's Corrective Action Plan	25-26



ROBERT W. HIENZ, C.P.A.
ANTHONY J. MACALUSO, JR., C.P.A.

DAVID V. ERNST

MEMBERS
American Institute of Certified Public Accountants
Society of Louisiana Certified Public Accountants

110 Veterans Memorial Blvd., Suite 170
Metairie, LA 70005
(504) 837-5434
FAX (504) 837-5435
www.hienzmacaluso.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
United Teachers of New Orleans
Health and Welfare Fund
New Orleans, Louisiana

We have audited the accompanying statements of net assets available for benefits of United Teachers of New Orleans Health and Welfare Fund (the "Fund") as of June 30, 2007 and June 30, 2006 and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note L, the Fund's third-party benefit claims processing function was not audited and we were unable to form an opinion regarding the amount of program benefits incurred in the accompanying statement of changes in net assets (stated at \$2,009,636 in 2007 and \$2,257,873 in 2006).

In our opinion, except for the effects on the June 30, 2007 and June 30, 2006 financial statements of the matter discussed in the preceding paragraph – had program benefits been susceptible to satisfactory audit tests, the June 30, 2007 and June 30, 2006 financial statements referred to in the first paragraph present fairly, in all material respects, the net assets available for benefits of United Teachers of New Orleans Health and Welfare Fund as of June 30, 2007 and June 30,

2006 and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2008 on our consideration of the United Teachers of New Orleans Health and Welfare Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information – schedule of expenses for June 30, 2007 and June 30, 2006 – on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information for the years ended June 30, 2007 and June 30, 2006 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated (except in relation to the matter discussed in paragraph 3) in all material respects in relation to the basic financial statements taken as a whole.

As discussed in Notes A, D & M to the financial statements, the State of Louisiana created a new "Recovery School District" in November of 2005 with responsibility for approximately 90% of the schools that were formerly under the control of the Orleans Parish School Board (the School Board). The School Board subsequently terminated most of its employees and discontinued making contributions to the Fund at the end of 2005. The School Board has not made any contributions to the Fund during 2006 and 2007 through the date of this report.

Hienz & Macaluso, LLC

HIENZ & MACALUSO, LLC
Metairie, Louisiana
January 10, 2008

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
ASSETS:		
Investments at fair value:		
U.S. Government securities	\$ 4,942,692	\$ 6,967,869
U.S. Agency securities	931,686	3,198,958
Money market funds	1,289,575	807,175
Total investments	<u>7,163,953</u>	<u>10,974,002</u>
Receivables:		
Contributions receivable - Orleans Parish School Board	-	-
Other receivables	348,931	29,139
Accrued interest	71,685	107,042
Total receivables	<u>420,616</u>	<u>136,181</u>
Property and equipment:		
Land	211,773	211,773
Furniture and equipment (net of accumulated depreciation of \$ 2,086 in 2007 and \$ 0 in 2006)	30,875	1,238
Building (net of accumulated depreciation of \$ 513,271 in 2007 and \$ 500,163 in 2006)	1,059,600	907,519
Total property and equipment	<u>1,302,248</u>	<u>1,120,530</u>
Other assets:		
Prepaid expenses	34,452	4,375
Deposits	-	4,863
Cash in bank	177,696	247,608
Cash held by third party	-	226
Total other	<u>212,148</u>	<u>257,072</u>
Total assets	<u>9,098,965</u>	<u>12,487,785</u>
LIABILITIES:		
Accounts payable and accrued expenses	19,023	277,457
Bank drafts outstanding	137,080	190,580
Proceeds from insurance claims	-	481,845
Estimated claims incurred but not reported or proc.		
Dental and vision claims	333,100	487,000
Hospital income protection claims	41,300	29,632
Medical dollar account claims	276,600	203,868
Total liabilities	<u>807,103</u>	<u>1,670,382</u>
Net assets available for benefits	<u>\$ 8,291,862</u>	<u>\$ 10,817,403</u>

The accompanying notes are an integral part of these financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Additions to net assets attributed to:		
Investment income:		
Net realized/unrealized appreciation (depreciation) in fair value of investments	\$ 118,358	\$ (261,128)
Interest earned	<u>339,620</u>	<u>503,548</u>
Total	457,978	242,420
Less investment expenses	<u>(25,054)</u>	<u>(39,306)</u>
Total	<u>432,924</u>	<u>203,114</u>
Contributions	933	7,230
Dental and vision premiums	65,251	116,880
Miscellaneous income	<u>102</u>	<u>6,699</u>
Total	<u>66,286</u>	<u>130,809</u>
Total additions	<u>499,210</u>	<u>333,923</u>
Deductions from net assets attributed to:		
Payments for:		
Dental and vision program benefits	1,156,018	1,747,257
Medical dollar account benefits	1,047,352	720,657
Hospital income protection benefits	142,443	85,206
Insurance premiums for life and health benefits	82,217	555,040
Insurance administrative fees	-	47,298
Teacher's centers	<u>147,469</u>	<u>131,300</u>
Total operating expenses	<u>2,575,499</u>	<u>3,286,758</u>
Administrative expenses	<u>449,252</u>	<u>331,939</u>
Total deductions	<u>3,024,751</u>	<u>3,618,697</u>
Net decrease	(2,525,541)	(3,284,774)
Total net assets - beginning of the year	<u>10,817,403</u>	<u>14,102,177</u>
Total net assets - end of the year	<u>\$ 8,291,862</u>	<u>\$ 10,817,403</u>

The accompanying notes are an integral part of these financial statements.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

A. Description of fund:

General

The following description of the United Teachers of New Orleans Health and Welfare Fund (the "Fund") provides only general information. Participants should refer to the Fund agreement for a complete description of the Fund's provisions.

The Fund is a Taft-Hartley Fund created under the authority of Section 1224 of Title 17, Louisiana Revised Statutes. The Fund was organized on January 28, 1980 upon execution of a "declaration of trust" (Trust) to receive and invest contributions from the Orleans Parish School Board made under the Collective Bargaining Agreement in effect between the Orleans Parish School Board and the United Teachers of New Orleans Bargaining Unit. The Fund is administered by a Board of Trustees consisting of not more than ten (10) persons, of which half are appointed by the Orleans Parish School Board. The Fund has provided members of the bargaining unit with a program of dental, vision, hospital income protection, life, disability, a medical dollar account and other participant benefits.

The terms of the Trust Agreement specify that in the absence of: 1) a collective bargaining agreement between the School Board and the Union; and 2) any other contributions by the School Board, the Fund is to start the process of termination and the Fund's reserves must be used to provide permissible benefits under the Trust Agreement and to pay for related operating expenses. These two conditions have been met. The School Board has not made a contribution to the Fund since June 30, 2005. Then on June 30, 2006, the collective bargaining agreement between the School Board and the Union expired. Therefore, benefits are being provided to pre-Katrina participants and the reserves of the Fund will be used to provide benefits and meet operating expenses until all remaining reserves under the Fund are disbursed or until the terms of the Trust Agreement are once again met (See Notes D and M).

Although the Orleans Parish School Board appoints half of the Trustees of the Fund, the School Board is only financially accountable for the contributions called for under the Collective Bargaining Agreement; all assets and income of the Fund are held for the exclusive benefit of the participants and cannot revert to either the School Board or the Union.

Benefits

The Fund has provided a program of dental, vision, hospital income protection, medical dollar account and other related benefits due to sickness, disability or death and also provides professional development programs and activities, which relate to student instruction.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

Description of fund (continued):

Benefits (continued)

During 2006 the Fund notified participants that all eligible employees of the School Board that were covered for benefits through the Fund on August 31, 2005, would continue to be covered for benefits they enrolled in through August 31, 2006. Newly hired employees of the School Board who were not yet eligible for benefits as of August 31, 2005, would not be eligible for coverage through the Fund.

The Fund offered the following benefits during 2007:

1. Employee dental coverage
2. Employee vision coverage
3. \$200 per Hospital Income Protection Benefits
4. \$1,000 Medical Dollar Account
5. Resources through the UTNO Center for Professional Growth and Development (Teacher Center)

On August 31, 2006, all life insurance benefits provided to participants through the Fund terminated (participants were able to apply individually for continued benefits with the insurance company). Participants have been notified that all other benefits listed above were extended through August 31, 2008 under the same eligibility conditions.

The above information represents a summary of benefits provided by the Fund. For more detailed information regarding the Fund's benefits and eligibility participants should contact FARA, formerly Total Benefits Services, Inc. (the current claims administrator) directly at (800) 596-3150 (toll free) or (504) 832-4800 (local) or call the United Teachers of New Orleans Health and Welfare Fund office.

Contributions

Historically, the majority of the Fund's support came from the annual contribution (made in monthly installments) from the Orleans Parish School Board per the Collective Bargaining Agreement. For the year ended June 30, 2006, the School Board was contractually obligated to remit an annual contribution to the Fund of \$800, for every employee who is a member of the bargaining unit (See Notes A, D & M). The contribution was based on the number of employees employed thirty days after the start of the school year. Subsequent to June 30, 2006, the Collective Bargaining Agreement has expired and the School Board has no obligation for any further contributions from that point forward.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

B. Summary of significant accounting policies:

The financial statements of the United Teachers of New Orleans Health and Welfare Fund have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to Health and Welfare Benefit Funds, and in accordance with the terms of the trust agreement. A summary of the Fund's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of accounting

The accompanying financial statements are presented on the accrual basis of accounting.

Revenue recognition

The Fund has historically recognized contributions as income based on census information received from the Orleans Parish School Board. For the year ended June 30, 2005 the Fund determined the School Board did not remit the entire amount of contributions owed. The School Board has not remitted any contributions for the year ended June 30, 2006. The School Board's contention is that no additional amounts are owed for 2005 or 2006 - see additional discussion in Notes A, D & M. This dispute had not been resolved as of the date of this report, therefore the amount of the receivable, if any, for the years ended June 30, 2005 and 2006 could not be determined. In accordance with generally accepted accounting principles no amounts were reported in the financial statements related to contributions not remitted by the School Board.

Premium revenue is recorded as earned based on the time period covered by the premium. Accruals on premium revenue are recorded based on supporting information received from the third party administrator and actual premium payments received subsequent to the Fund's fiscal year end.

Valuation of investments

The Fund's investments are stated at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the plan year.

Receivables

The Fund considers amounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required (See above discussion regarding revenue recognition and Notes A, D & M).

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

Summary of significant accounting policies (continued):

Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (ranging from 5 – 40 years) on a straight-line basis. Depreciation expense was \$15,193 and \$5,962 for the years ended June 30, 2007 and 2006, respectively.

IBNR

Fund liabilities for dental, vision, hospital income protection and medical dollar account claims incurred but not reported or processed as of June 30, 2007 and June 30, 2006 are estimated by the Fund's actuarial consultant.

C. Use of estimates in preparation of financial statements:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Termination of the Fund:

The term or existence of the Fund (or "Trust") is considered indefinite as authorized by the Declaration of Trust executed January 28, 1980. However, the Fund is terminated when there is no longer in effect an agreement between the Orleans Parish School Board (the "School Board") and the United Teachers of New Orleans (the "Union") which requires School Board payments for the purposes provided by the Declaration of Trust and when the Funds have been exhausted; unless the School Board, at its sole discretion, unilaterally decides to continue making contributions to the Fund. As discussed in Notes A & M to the financial statements the collective bargaining agreement has expired and the School Board is no longer required to make contributions to the Fund. Therefore, effective November 3, 2006 pursuant to a resolution passed by the Trustees of the Fund, the reserves of the Fund are being used (and have been since July 2005) to provide benefits and meet operating expenses until all remaining reserves under the Fund are disbursed or until the terms of the Trust Agreement are once again met.

The Trustees will continue to monitor the reserves of the Fund. The Trustees have determined that reserves are sufficient to at least provide benefits and meet operating expenses at current levels through August 31, 2008. During 2008 the Trustees will

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

Termination of the fund (continued):

determine if and for how long benefits can be extended and if benefits will have to be adjusted they will do so based on available reserves.

E. Concentrations of credit risk:

The Fund maintains cash balances at several banking institutions and brokerage institutions. The Federal Deposit Insurance Corporation insures accounts with balances up to \$ 100,000 at each banking institution. The accounts at the brokerage institution are insured by the Securities Investment Protection Corporation up to \$100,000 (cash) and up to \$500,000 (securities) with the remaining balance being fully insured by the brokerage institution through private insurance. At June 30, 2007 and 2006, the Fund's uninsured cash balances totaled approximately \$122,146 and \$151,234, respectively; during the years ended June 30, 2007 and 2006 the Fund's bank pledged investment securities to cover the fund balances in excess of the FDIC limit.

F. Concentrations of revenue:

The Fund received a substantial amount of its revenue from contributions under a collective bargaining agreement with the Orleans Parish School Board during 2005 and payments for dependent coverage of plan participants during 2006 and 2007. Contributions have been discontinued (See Notes A, D & M) and payments for dependent coverage received have significantly decreased. The Fund's operations have been significantly impacted (See notes A, D & M).

G. Investments:

Investment management companies hold the Fund's investments. The following schedules reflect the cost and fair market value of the investments at June 30, 2007 and 2006, respectively:

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

Note G - Investments (Continued):

<i>Investment Type</i>	<i>Face Amount</i>	<i>Rate</i>	<i>Maturity</i>	<i>2007 Cost</i>	<i>2007 Market</i>
<u>Cash equivalents:</u>					
Money market funds - government	n/a	n/a	n/a	\$ 1,289,575	\$ 1,289,575
<u>U.S. Treasury Notes:</u>					
U.S.Treasury Note	\$ 555,000	3.00%	02/15/08	556,718	548,235
U.S.Treasury Note	925,000	2.63%	05/15/08	925,003	905,991
U.S.Treasury Note	325,000	3.13%	09/15/08	328,525	318,067
U.S.Treasury Note	400,000	4.75%	11/15/08	413,360	398,812
U.S.Treasury Note	1,100,000	5.50%	05/15/09	1,156,433	1,111,858
U.S.Treasury Note	1,450,000	6.50%	02/15/10	1,538,333	1,506,072
U.S.Treasury Note	150,000	5.75%	08/15/10	159,395	153,657
Total U.S. Treasury Notes	n/a	n/a	n/a	5,075,767	4,942,692
<u>U.S. Agencies Discount Notes:</u>					
FHLB Bond	350,000	4.00%	07/15/13	350,000	334,215
FHLB Bond	300,000	3.50%	11/15/07	301,452	297,986
FHLB Bond	300,000	4.90%	11/21/07	300,000	299,485
Total U.S. Agency Notes	n/a	n/a	n/a	951,452	931,686
Grand totals	n/a	n/a	n/a	\$ 7,316,794	\$ 7,163,953

During the year June 30, 2007 the Fund's investments held during the year appreciated in value by \$ 118,358. Proceeds received from the sale of investments during 2007 were \$ 7,631,701 with realized gains in the amount of \$ 760 and realized losses in the amount of \$ 111,034.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

Note G - Investments (Continued):

Investment Type	Face Amount	Rate	Maturity	2006 Cost	2006 Market
<u>Cash equivalents:</u>					
Money market funds - government	n/a	n/a	n/a	\$ 807,175	\$ 807,175
<u>U.S. Treasury Notes:</u>					
U.S. Treasury Note	300,000	2.62%	11/15/06	302,391	297,200
U.S. Treasury Note - IPS	1,027,367	3.37%	01/15/07	1,179,379	1,122,154
U.S. Treasury Note	555,000	3.00%	02/15/08	566,750	536,097
U.S. Treasury Note	925,000	2.63%	05/15/08	933,145	883,088
U.S. Treasury Note	225,000	3.13%	09/15/08	230,414	215,543
U.S. Treasury Note	400,000	4.75%	11/15/08	450,438	396,376
U.S. Treasury Note	1,100,000	5.50%	05/15/09	1,264,838	1,110,824
U.S. Treasury Note	1,450,000	6.50%	02/15/10	1,628,531	1,514,589
U.S. Treasury Note	150,000	5.75%	08/15/10	166,830	153,657
U.S. Treasury Note	100,000	3.13%	09/15/08	100,000	95,797
U.S. Treasury Note	350,000	3.00%	12/31/06	349,241	346,185
U.S. Treasury Note	300,000	3.58%	02/28/07	297,398	296,379
Total U.S. Treasury Notes	n/a	n/a	n/a	7,469,355	6,967,869
<u>U.S. Agencies Discount Notes:</u>					
FHLB Note	350,000	3.75%	07/15/13	336,296	337,883
FHLB Note	300,000	2.87%	09/15/06	302,016	298,500
FHLM Note	500,000	3.00%	11/09/06	500,000	495,785
FHLM Note	300,000	2.50%	12/04/06	301,335	296,391
FHLB Note	300,000	4.90%	11/21/07	300,000	297,657
FNMA Note	294,000	6.25%	04/05/16	294,000	291,060
FHLB Note	400,000	5.50%	05/15/08	400,000	398,812
FHLM Note	500,000	2.05%	01/15/07	500,000	490,650
FHLB Note	300,000	3.50%	11/15/07	301,452	292,220
Total U.S. Agency Notes	n/a	n/a	n/a	3,235,099	3,198,958
Grand totals	n/a	n/a	n/a	\$ 11,511,629	\$ 10,974,002

During the year June 30, 2006 the Fund's investments held during the year depreciated in value by \$ 261,128. Proceeds received from the sale of investments during 2006 were \$ 2,253,688 with realized gains in the amount of \$ 295 and realized losses in the amount of \$ 28,755.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

H. Net assets, end of year:

The Fund's Board of Trustees has designated the use of net assets available for benefits of the fund. The net assets available for benefits as of June 30, 2007 and 2006 are designated as follows:

	<u>2007</u>	<u>2006</u>
Claims fluctuation reserve	\$ 503,200	\$ 555,000
Contingency (economic) reserve	1,512,376	1,809,348
Property reserve	500,120	500,120
Undesignated	<u>5,776,166</u>	<u>7,952,935</u>
Total net assets – end of year	<u>\$ 8,291,862</u>	<u>\$ 10,817,403</u>

The claims fluctuation reserve and contingency (economic) reserve have been adjusted based on recommendations from the Fund's actuarial consultant. The property reserve has been adjusted to the total amount of the contract to repair the building (including approved change orders) reduced by insurance proceeds received as of June 30, 2006 and the Board has decided to maintain the reserve at its current level at June 30, 2007.

I. Contributions:

Contributions from the Orleans Parish School Board and the United Teachers of New Orleans (UTNO) Bargaining Unit for the years ended June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Orleans Parish School Board	\$ 0	\$ 0
UTNO Bargaining Unit	<u>933</u>	<u>7,230</u>
Total contributions	<u>\$ 933</u>	<u>\$ 7,230</u>

Contributions from the Orleans Parish School Board were based on the number of employees covered by the Collective Bargaining Agreement. As described in Note M, the Fund has filed a lawsuit against the School Board for unpaid contributions.

J. Tax status:

The Fund is qualified pursuant to Section 501 (c)(9) of the Internal Revenue Code, and accordingly is exempt from income taxes as a voluntary employee benefit association. The Fund has obtained a favorable tax determination letter from the Internal Revenue Service. The Fund's management believes that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

Tax status (continued):

Therefore, no provision for income taxes has been included in the Fund's financial statements.

K. Retirement benefits:

The majority of the Fund's employees are covered under the State of Louisiana Teachers Retirement System (TRSL). The covered employees are required to contribute 8% of their covered salary and the Fund (employer) is required to contribute an employer contribution. The Fund contributed 15.8%, 15.9% and 15.5% of covered payroll for the years ended June 30, 2007, 2006 and 2005 respectively. The employer contribution to the system amounted to \$34,561, \$27,568 and \$57,191 for the years ended June 30, 2007, 2006 and 2005, respectively. TRSL issues an annual publicly available financial report that includes financial statements and required supplementary information, as well as a summary annual financial report that provides basic financial information in an easily readable format. Those reports may be obtained by contacting TRSL at P.O. Box 94123, Baton Rouge, LA 70804-9123 or by calling (225) 925-6446.

The Fund provided for retirement benefits for its non-qualifying employees under a separate defined contribution plan effective July 1, 1997. The Fund's contribution for this plan was \$0 and \$2,242 for the years ended June 30, 2007 and 2006, respectively. As of June 30, 2006 there were no employees remaining in the plan, therefore the Fund terminated the plan effective July 1, 2006.

L. Third party benefit claims:

The Fund uses third party benefit claims administrators to administer various segments of the Fund's programs. The Fund's third party benefit claims processing function was not audited because the program benefits were not susceptible to satisfactory audit tests. The total amount of program benefits included in the statement of changes in net assets available for benefits is recorded in the financial statements as follows:

	<u>2007</u>	<u>2006</u>
Dental and vision program benefits	\$ 1,156,018	\$ 1,747,257
Service fees	<u>(255,117)</u>	<u>(230,591)</u>
Net dental and vision program benefits	<u>900,901</u>	<u>1,516,666</u>
Medical dollar account benefits	1,047,352	720,657
Service fees	<u>(81,060)</u>	<u>(64,656)</u>
Net medical dollar account program benefits	<u>966,292</u>	<u>656,001</u>

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

Third party benefit claims (continued):

Hospital income protection benefits	<u>142,443</u>	<u>85,206</u>
Total program benefits, net of service fees	<u>\$ 2,009,636</u>	<u>\$ 2,257,873</u>

M. Commitments and contingencies:

Contract for building repairs

On August 15, 2006 the Fund entered into a contract to repair the building. The total contract amount was \$957,478. As of the completion of the contract approved change orders amounted to \$38,487 bringing the total contract amount to \$995,965. The Fund received insurance proceeds of \$830,776 which were used to offset the costs of the repair of the building. Flood and hazard insurance policies on the building lapsed during the fiscal year ended June 30, 2006. The building was insured through the contractor's insurance policy in accordance with the contract to repair the building. Subsequently, on May 12, 2007, management secured flood and hazard insurance policies on the building.

Proceeds from insurance claims liability

The Fund recorded \$481,845 as a liability under the line item "proceeds from insurance claims" during 2006. These amounts were received from insurance companies for damages to the building and its contents as result of Hurricanes Katrina and Rita during 2006. These funds were used to offset repair costs of the building during the year ended June 30, 2007 along with additional amounts received from insurance companies during 2007 (See Note N).

Contract with Orleans Parish School Board

In November of 2005 the State of Louisiana created a "Recovery School District" that has responsibility for 112 schools formerly controlled by the Orleans Parish School Board. As a result of this legislation the School Board terminated the majority of its employees, a substantial number of which were participants in the fund. The School Board also stopped making its contributions under the Collective Bargaining Agreement during 2005. The School Board has not made any contributions during 2006 through the date of this report. The Fund's contract with the School Board terminated effective June 30, 2006 and has not been renewed as of the date of this report.

The Fund has filed a lawsuit against the Orleans Parish School Board for failing to make all required contributions for the 2005 fiscal year. The Fund alleges that \$457,410 in contributions, plus interest is owed to the Fund for 2005. The Fund has also filed a lawsuit against the Orleans Parish School Board for failing to make any of the required contributions for the 2006 fiscal year. The Fund alleges that \$4,998,400 in contributions, plus interest is owed to the Fund for 2006.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**

Commitments and contingencies (continued):

The Orleans Parish School Board has filed a "reconventional demand" denying that it owes any additional contributions to the Fund and alleged improper administration of the Fund by the Trustees and a breach of fiduciary duty on the part of the Trustees. The Fund intends to vigorously pursue its claims against the School Board and to vigorously defend itself against the allegations made in the reconventional demand. The Fund's fiduciary insurance carrier has agreed to defend the Trustees against the breach of fiduciary allegations made in the reconventional demand.

The Fund's attorney concluded that the "likelihood of an unfavorable outcome" regarding the allegations by the School Board cannot be estimated at this time. In accordance with generally accepted accounting principles the financial statements do not reflect any potential gains or losses that might result from events discussed in the preceding three paragraphs.

N. Property and equipment:

The Fund's building was substantially damaged as a result of Hurricanes Katrina and Rita during 2006. The Fund was insured and received insurance proceeds during 2006 in the amount of \$481,845. During 2007, the Fund received an additional 348,931 of insurance proceeds. The Fund entered into a contract on August 15, 2006 to repair the damages to the building (See Note M). As of the date of the prior year audit report a determination could not be made as to whether a "write down" of the building would be necessary and it has therefore been reported in the financial statements at its historical cost less accumulated depreciation. All insurance proceeds were used to offset the repair costs of the building.

Virtually all of the Fund's furniture and equipment was destroyed or damaged, as well. All furniture and equipment was charged against income and written off in the fiscal year ending June 30, 2006, resulting in a decrease in net assets in the amount of \$4,096.

O. Lease agreements:

The Fund entered into a lease for storage space in December of 2006. The lease required payment of \$185 per month and the term was month to month. The lease was terminated during the year ended June 30, 2007. The Fund also entered into a sub-lease arrangement for space for office space on the west-bank of New Orleans in December of 2006. The lease required payment of \$935 per month and could be cancelled by either party upon thirty day notice. The lease for the west-bank office space was cancelled during the fiscal year ending June 30, 2007. Total expenses under operating leases for 2007 and 2006 amounted to \$3,740 and \$6,905, respectively. See Note M for additional discussions regarding lease commitments.

ADDITIONAL INFORMATION

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

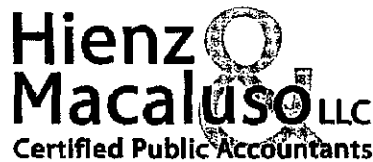
ADDITIONAL INFORMATION

SCHEDULE OF EXPENSES

FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Dental and vision program benefits:		
Claims	\$ 900,901	\$ 1,516,666
Servicing fees	255,117	230,591
Total dental and vision program benefits	<u>1,156,018</u>	<u>1,747,257</u>
Medical dollar account:		
Claims	966,292	656,001
Servicing fees	81,060	64,656
Total medical dollar account	<u>1,047,352</u>	<u>720,657</u>
Other program benefits:		
Hospital income protection benefits	142,443	85,206
Insurance premiums for life benefits	82,217	436,902
Insurance premiums for health benefits	-	118,138
Insurance administration fees	-	47,298
Teacher's centers	147,469	131,300
Total other program benefits	<u>372,129</u>	<u>818,844</u>
Administrative expenses:		
Salaries	78,118	94,471
Accounting and auditing	30,659	30,450
Bank charges	1,921	251
Benefits, consulting and actuarial	31,683	50,569
Board meeting expenses	3,083	3,288
Books and publications	1,025	864
Depreciation	15,193	5,962
Fringe benefits	37,680	16,620
Insurance and bonds	32,415	15,542
Legal	62,244	41,822
Maintenance	4,320	10,106
Miscellaneous	4,973	9,019
Payroll taxes	11,813	15,511
Postage	16,349	-
Printing	45,809	7,838
Professional education conferences	4,742	2,736
Office	34,109	18,717
Rent	3,740	
Telephone	7,380	2,959
Travel	2,256	2,390
Utilities	19,740	2,824
Total administrative expenses	<u>449,252</u>	<u>331,939</u>
Total expenses	<u><u>\$ 3,024,751</u></u>	<u><u>\$ 3,618,697</u></u>

OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS



ROBERT W. HIENZ, C.P.A.
ANTHONY J. MACALUSO, JR., C.P.A.

DAVID V. ERNST

MEMBERS
American Institute of Certified Public Accountants
Society of Louisiana Certified Public Accountants

110 Veterans Memorial Blvd., Suite 170
Metairie, LA 70005
(504) 837-5434
FAX (504) 837-5435
www.hienzmacaluso.com

Independent Auditor's Report
on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

Board of Trustees
United Teachers of New Orleans
Health and Welfare Fund
New Orleans, Louisiana

We have audited the financial statements of United Teachers of New Orleans Health and Welfare Fund (the "Fund"), as of and for the year ended June 30, 2007, and have issued our report thereon dated January 10, 2008, which was qualified as to third-party benefit payments. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for determining our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a

misstatement of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control. We consider the deficiency described in the accompanying schedule of findings as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2007-1.

The Fund's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Fund's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of United Teachers of New Orleans Health and Welfare Fund and its management, federal and state awarding agencies and pass-through entities and the Legislative Auditor of Louisiana and is not intended to be, and should not be, anyone other than those specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Hienz & Macaluso, LLC

HIENZ & MACALUSO, LLC
Metairie, Louisiana
January 10, 2008

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

**SUMMARY SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

We have audited the basic financial statements of United Teachers of New Orleans Health and Welfare Fund (the "Fund") as of and for the years ended June 30, 2007 and June 30, 2006, and have issued our report thereon dated January 10, 2008, which was qualified as to third-party benefit payments. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of June 30, 2007 and June 30, 2006 resulted in a qualified opinion, as stated above.

Section I - Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements:

Internal Control:

Material Weakness - NO

Significant Deficiencies - See finding 2007-1 below

Compliance:

Noncompliance Material to the Financial Statements – See finding 2007-1 below

b. Federal Awards:

Not applicable

Section II - Financial Statement Findings

Finding 2007-1 Laws affecting Louisiana Government:

This is an internal control and compliance finding.

As noted in prior audits the Fund does not comply with Louisiana Government's public records regulations concerning the following areas:

- public bid law

- budgeting – submission and public participation
- open meetings – notices of meetings and official journals

The Fund believes that although it is subject to legislative oversight and the legislative auditor's review, it is not subject to the Public Bid Law, the Open Meetings Law and the budgeting provisions, which are applicable to public bodies.

We recommend that the Fund obtain a final determination from federal and/or state authorities regarding this matter and abide by all applicable laws and regulations.

Section III - Federal Award Findings and Questioned Costs

Not applicable.

Section IV - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2007 or June 30, 2006.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

**SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

Section I – Internal Control and Compliance Material to the Financial Statements

Item 2006-1 Accounting records – This finding has been resolved in the current year.

Item 2006-2 Laws affecting Louisiana Government – repeated in 2007, see Finding 2007 – 1.

Section II – Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2006.

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

**MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2007**

LAW OFFICES

WEILER & REES LLC

JOHN J. WEILER LL.M.*†
PAUL DAMIAN REES LL.M.*
CHRISTIAN N. WEILER LL.M.
ERIN J. BENOIT LL.M.

LOUISIANA BOARD CERTIFIED
*TAX LAW SPECIALIST
†ESTATE PLANNING AND
ADMINISTRATION SPECIALIST

650 POYDRAS STREET*
SUITE 2210
NEW ORLEANS, LOUISIANA 70130
(504) 524-2944
FAX (504) 524-2969

OF COUNSEL
CHRISTINE C. ST. JOHN LL.M.*
NEW ORLEANS, LOUISIANA
ROBERT E. ROWE*
LAFAYETTE, LOUISIANA
SUSAN M. PETERSON†
NEW ORLEANS, LOUISIANA

NORTHSHORE OFFICE
2160 8TH STREET, SUITE A
MANDEVILLE, LOUISIANA 70471
(985) 874-1443
FAX (985) 874-9082

January 10, 2008

To be picked up and U.S. Mail

Robert W. Hienz, C.P.A.
Hienz & Macaluso, L.L.C.
110 Veterans Memorial Blvd.
Suite 170
Metairie, LA 70005

Re: Management Response to Audit Report

Dear Mr. Hienz:

We acknowledge receipt of the audited financial statements of the United Teachers of New Orleans Health and Welfare Fund (the Fund) as of and for the year ended June 30, 2007 and your audit opinion letter dated January 10, 2008. The Fund has asked me to respond to your letter.

Compliance with Laws Affecting Louisiana Government.

The Fund does not comply with certain laws affecting Louisiana government in the areas of (i) Public Bid Law, (ii) budgeting - submission and public participation, (iii) Cash management (security for deposits) and (iv) Open meetings, notice of meeting and official journals. As noted in your audit opinion letter prior to the enactment of LA. R.S. 17:1224.E, which expressly made trusts such as the Fund subject to legislative oversight and the legislative auditor's review, the Attorney General of the State of Louisiana had expressed the opinion, "Qualifying school boards can make contributions of public funds to a trust authorized by LA. R.S. 17:1224 the funds so contributed are not subject to audit pursuant to R.S. 24:513 and the Louisiana Governmental Audit Guide because they are not held in a fiduciary capacity by the school boards."

The Fund is not a "public body" as defined in LA. R.S. 42.4.2A. (2). The majority of the Fund's funding came from the Orleans Parish School Board (the "Board"), though a substantial amount comes from participant contributions. The funding by the Board was pursuant to a labor agreement entered into as between the Board and the United Teachers of New Orleans (AFT; AFL-CIO/LFT).

The labor agreement expired on June 30, 2006 and no funding by the Board has been made since that date. In fact the Board did not make a contribution to the Fund for the period of

Robert W. Hienz, C.P.A.
Hienz & Macaluso, L.L.C.
January 10, 2008
Page 2

July 1, 2005 through June 30, 2006 and under-contributed for the period of July 1, 2004 through June 30, 2005. The Fund has filed suit against the Board on the basis for failing to make the required contributions.

The Fund is a Taft Hartley Fund and no Fund assets can ever revert back to the Board. The funds are not Board funds, but are held by the trustees in a fiduciary capacity for the exclusive benefit of participants.

The above referenced statutes are applicable to public bodies. As such they are inapplicable to the Fund and there is no requirement for the Fund to comply with these statutes. In conversations with your auditor, Robert W. Hienz, CPA, he indicated that the format of the audit requires a comment as to compliance with these statutes. The comment is so noted and the Fund thinks no further response on this matter is required.

Schedule of Prior Years' Findings for the Year Ending June 30, 2006.

Section II -Financial Statement Findings

Finding 2006-1 Accounting Records - This finding was resolved in the current year.

Finding 2006 - 2 Laws Affecting Louisiana Government - See Item 1 in this letter.

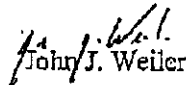
Section III - Internal Control and Compliance Material to Federal Awards

Not applicable.

Section IV - Management Letter

A management letter was not issued in connection with the audit.

Sincerely yours,


John J. Weiler

JJW/js

cc: UTNO Trustees
Mrs. Gail Saizan
Ms. Robin J. Dusang
Mr. A. Michael Lawrence